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ECONOMIC INTELLIGENCE REPORT

**SINO-SOVIET BLOC ECONOMIC ACTIVITIES
IN UNDERDEVELOPED AREAS
1 MAY-31 AUGUST 1956**

**EIC-R14-S1
15 December 1956**

ECONOMIC INTELLIGENCE COMMITTEE

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FOREWORD

This report, covering the 4 months from 1 May through 31 August 1956, constitutes the first periodic supplement to EIC-R-14, Sino-Soviet Bloc Postwar Economic Activities in Underdeveloped Areas, 8 August 1956, SECRET. These reports in the EIC-R-14 series, as well as the biweekly reports on Sino-Soviet Bloc Economic Activities in Underdeveloped Areas in the EIC-WGR-1 series, were undertaken in response to a request from the Special Assistant to the President for Foreign Economic Policy.

The report includes a discussion of economic considerations which presumably have influenced Soviet policymakers in planning their programs in the Free World underdeveloped countries. No attempt has been made, however, to determine the relative importance to the Bloc planners of economic objectives as compared with political and military objectives. A consideration of the interrelationships among these objectives is to be found in NIE 100-3-56, Sino-Soviet Policy and Its Probable Effect in Underdeveloped Areas, 24 April 1956, SECRET, and is to be further examined in the forthcoming NIE 100-1-57, Sino-Soviet Bloc Foreign Economic Policy and Probable Effects in Underdeveloped Areas, scheduled for completion in the spring of 1957.

As indicated above, the cut-off date for this report is 31 August 1956. No attempt has been made to take account of developments subsequent to that date.

For purposes of this report, the term "underdeveloped areas" includes the following Free World countries: (1) all countries in South Asia; (2) all countries in the Far East, except Japan; (3) all countries in the Middle East, including Egypt, Sudan, Turkey, and Greece; (4) the independent countries of Africa, except the Union of South Africa; (5) Yugoslavia, Spain, Portugal, and Iceland; and (6) all independent countries in Latin America. Sino-Soviet Bloc countries are specifically excluded from consideration.

This report was prepared by the EIC Working Group on Sino-Soviet Bloc Economic Activities in Underdeveloped Areas, including representatives of the Departments of State, the Army, the Navy, the Air Force,

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Commerce, and Agriculture; the International Cooperation Administration; the Office of the Secretary of Defense; and the Central Intelligence Agency. It was reviewed and concurred in by the Economic Intelligence Committee.

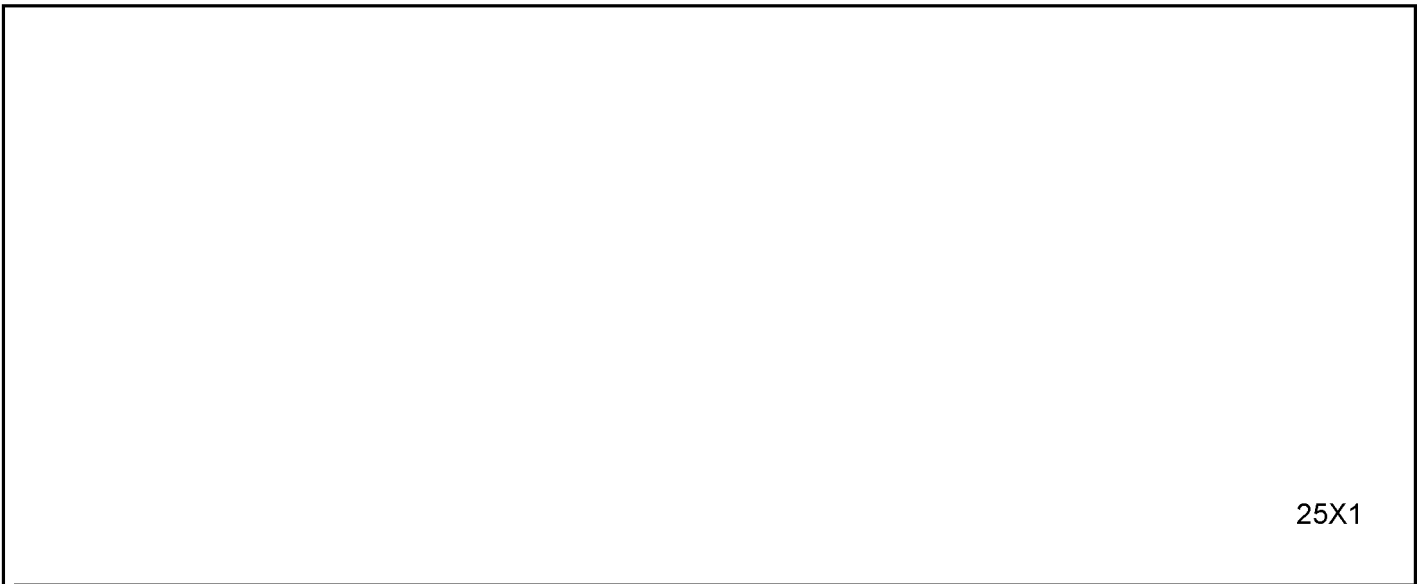
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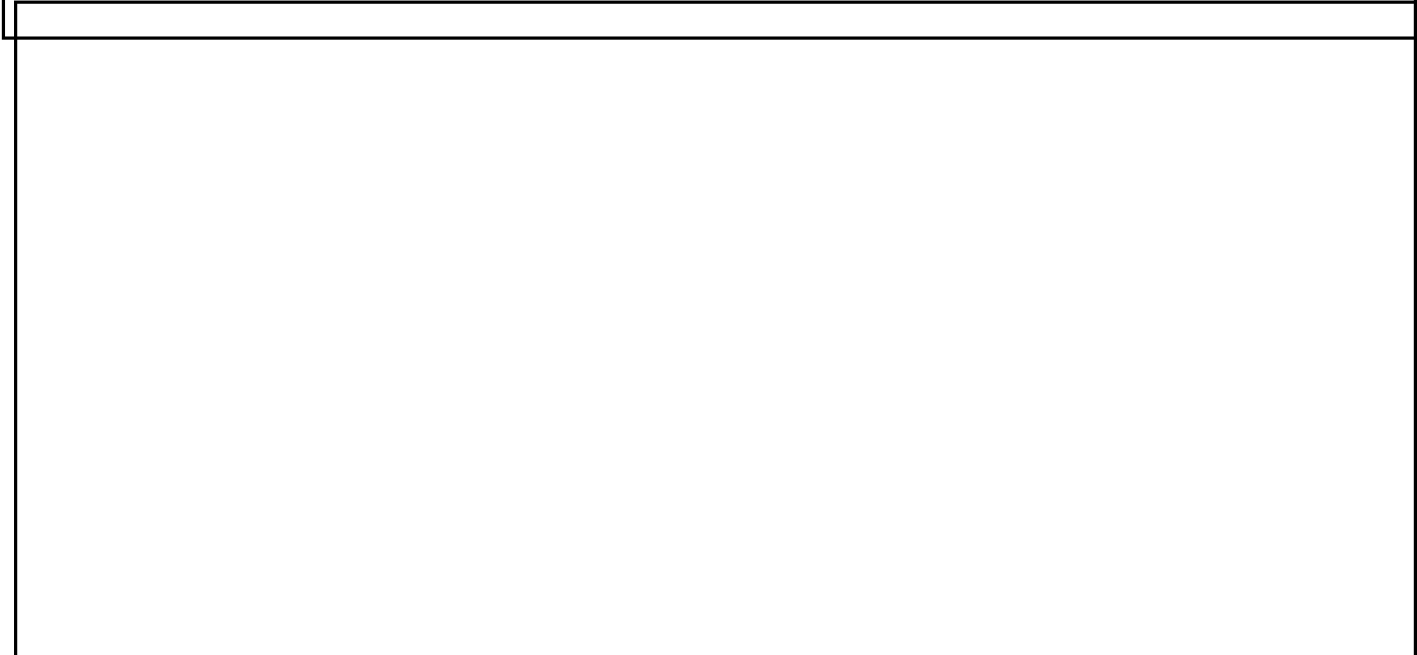
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SINO-SOVIET BLOC ECONOMIC ACTIVITIES
IN UNDERDEVELOPED AREAS*
1 MAY - 31 AUGUST 1956

Summary

I. Sino-Soviet Bloc Economic Offensive in Underdeveloped Areas.

During the period 1 May to 31 August 1956 the Sino-Soviet Bloc economic offensive in the underdeveloped countries of the Free World continued to center on countries in the Middle East and on those bordering on the Bloc. As in the past, Bloc economic policies continued to be reflected in an expansion of credits, technical services, and commodity trade. Yugoslavia, Afghanistan, and India remained the principal recipients of credits extended for economic development. All of the large credits for economic development have been provided by the USSR, whereas European Satellite credits have been limited primarily to loans for specific projects of more limited scope. Except for Bloc contributions made through the UN, Communist China has made the only significant grant to an underdeveloped country, a contribution of US \$22.4 million** to Cambodia. Provision of military equipment on credit has remained of particular importance in the Middle East.

A particularly noteworthy development was the enlargement of Bloc technical assistance programs. During the period 1 May to 31 August 1956, Bloc experts were in at least 14 underdeveloped countries performing tasks that varied from advising the National Production Council in Egypt to supervising the digging of irrigation ditches in Afghanistan. Although a few minor difficulties were encountered, implementation of the Bloc program was generally successful.

* Although the main emphasis in this report is on economic activities of the Sino-Soviet Bloc in underdeveloped areas of the Free World, significant Bloc activities of this nature in areas not considered underdeveloped are also discussed.

** Throughout this report, values have been expressed in US dollar equivalents.

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A. Magnitude and Distribution of Trade.

Trade between the Sino-Soviet Bloc and the underdeveloped countries of the Free World was approximately \$1.1 billion during 1955 and was carried on at an annual rate of \$1.5 billion during the first quarter of 1956. In 1955, trade with the underdeveloped countries constituted about one-fourth of total Bloc trade with the Free World. In the first quarter of 1956 this share had risen to almost one-third. Trade with countries in Latin America and the Middle East during the first quarter of 1956 was at an annual rate of \$450 million for each area. Bloc trade with Asiatic underdeveloped countries was at a rate of about \$350 million during the first quarter of 1956 and was increasing at a somewhat slower pace than in other areas.

The European Bloc countries account for about 80 percent of total Sino-Soviet Bloc trade with the underdeveloped countries. In this trade the European Satellites (which account for more than one-half of total Bloc trade with the underdeveloped countries) were active primarily in the Middle East and in Latin America, whereas the USSR traded primarily with Latin America and the European underdeveloped countries. The trade of Communist China with underdeveloped countries was largely confined to South Asia and the Far East and constituted about two-thirds of the total Bloc trade with these regions.

B. Credits and Grants.

During the period covered by this report, extensions of credits by the Bloc expanded by nearly \$250 million. All of the additional credits provided during this period were extended by the European Satellites (\$128 million) or the USSR (\$120 million); however, Communist China contributed a \$22-million grant-in-aid to Cambodia (not included in the credit total). Credit offers which had not been accepted by 31 August amounted to more than \$250 million, including a \$100-million offer by the USSR which subsequently was accepted by Indonesia subject to parliamentary approval. Except for a credit of \$175 million jointly provided by the USSR and East Germany for the construction of an aluminum project in Yugoslavia, all of the credits for economic development accepted during this period were relatively small.

As of 31 August 1956, total credits extended by the Sino-Soviet Bloc to underdeveloped countries since the beginning of the economic offensive amounted to nearly \$1.2 billion, more than double the volume

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of credits which had been extended through December 1955. Yugoslavia, Afghanistan, and India were the principal recipients of Bloc credits for economic development, each receiving in excess of \$100 million. Syria, Egypt, and Afghanistan received credits totaling at least \$316 million for the purchase of arms.

Of those Bloc development credits whose assignment to specific types of projects can be identified, by far the major portion is for mineral development and manufacturing. Most of the manufacturing involves primary processing of raw materials or production of light consumer goods such as textiles.

C. Trade and Payments Agreements.

During this period, new trade pacts signed with underdeveloped countries generally called for exports of Bloc industrial equipment and other manufactured goods in exchange for raw materials and foodstuffs. Twenty-one new agreements were negotiated, primarily with countries of the Middle East. The USSR, Czechoslovakia, and Hungary were the principal Bloc countries involved.

D. Trade Promotion.

The economic program of the Sino-Soviet Bloc during the period under review was promoted by participating in trade fairs, by establishing permanent expositions, by advertising in local publications, by underpricing Western distributors, by employing local firms as representatives for the Bloc countries, and by forming special enterprises to stimulate interest in trading with the Bloc. Special inducements were offered to private firms in underdeveloped countries in recent months. New agencies devoted to promoting Bloc economic interests were established in Burma, Ethiopia, Argentina, and Syria. In some cases these agencies are owned by Bloc countries, but in most instances they are locally owned firms designated for the purpose.

E. Technical, Professional, and Scientific Services.

Although it has not yet been possible to develop a quantitative estimate of the numbers of Bloc technical personnel moving into and out of Free World countries, it is quite clear that the technical assistance program of the Bloc increased considerably in intensity and scope in recent months. India, Afghanistan, and Egypt received the greatest amount of technical aid, and the USSR, Czechoslovakia, and

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East Germany provided the largest number of experts. Bloc assistance on a large scale was approved for petroleum, coal, and diamond mine development in India; for transport improvements in Afghanistan; for mineral development in Yugoslavia; and for highway and port improvement in Egypt. Soviet experts assisted in the Burmese agricultural program, and Soviet engineers worked on a large irrigation project in Afghanistan. Industrial technicians from the USSR worked on the construction of a steel mill and assisted in planning for expansion of the heavy machinery industry in India. Czechoslovaks worked on the construction of a cement mill and a sugar refinery in Afghanistan, and on a distillery in Argentina. Arms experts from Poland, Czechoslovakia, and the USSR went to Egypt to assemble the delivered equipment, and it is believed that Czechoslovak ordnance men were sent to Syria. East German and Soviet economists occupied relatively high advisory posts in Egypt.

Individuals from underdeveloped countries were trained during the period under review as industrial technicians in several Bloc countries. The USSR provided instruction for future technicians for the Soviet-financed steel mill under construction in India. Egyptians studied shipbuilding in East Germany, and Yugoslavs studied a number of occupational specialties in the USSR. Egyptian scientists studied in Soviet research institutes in preparation for the establishment by the USSR of a nuclear physics laboratory in Egypt, and Indian and Burmese instructors received training to enable them to teach in the technical institutes that are to be established in Bombay and Rangoon. Practically all of the Bloc countries offered inducements to attract prospective students from underdeveloped countries to Bloc universities and technical institutes.

F. Economic Objectives and Capabilities.

Economic activities of the Sino-Soviet Bloc in underdeveloped areas, motivated by a complex of military, political, and economic aims, have played a crucial role in establishing closer links between the economies of the Bloc and those of Afghanistan, Egypt, and Yugoslavia. Through the provision of economic planning experts the Bloc has attained a position which may enable it to influence the organization of production and of resource utilization in Egypt and, to a lesser extent, in India. Industrial growth in the European Bloc, especially in the USSR, has developed sufficiently, so that it is probably advantageous to promote outside markets for some industrial products and outside sources of raw materials and foods. Extensions

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of credits for purchases of Bloc capital goods -- usually repayable in food or industrial raw materials -- facilitate this exchange.

A clear picture of the rate at which deliveries have been made against Bloc commitments is not as yet available. In general, however no pronounced difficulty in meeting commitments has so far been observed. The Bloc appears to have sufficient productive capacity to fulfill its present obligations and to enlarge considerably its future program. Some minor problems have arisen in following through on deliveries, however, and it may be anticipated that others will develop. Furthermore, because of a domestic shortage of consumer goods, the Bloc has been reluctant to contract for the export of such commodities.

II. Sino-Soviet Bloc Economic Activities in Underdeveloped Areas
by Region and Country.

A. South Asia.

Although Bloc activity in South Asia centered on Afghanistan and India, agreements of some significance were made with both Pakistan and Ceylon during the period under review. A trade agreement between the USSR and Pakistan was signed in June 1956. Ceylonese discussions with the USSR and Communist China, following the signing of a Ceylonese economic cooperation agreement with Czechoslovakia, seemed to indicate that a closer association between Ceylon and the Bloc might soon develop. Arms agreements between Afghanistan and Bloc countries were negotiated, and a number of contracts were signed for projects under the \$100-million credit from the USSR. Work progressed on the Soviet-financed steel plant in India, and arrangements were made for procuring equipment and for technical training of Indian personnel for the development of natural resources.

B. Far East.

In the Far East, Indonesia signed a trade agreement with the USSR, obtained industrial credits from Czechoslovakia, and at the end of August was negotiating with the USSR for a development credit amounting to \$100 million (which later was signed). A \$22-million grant-in-aid was given by Communist China to Cambodia, which also received general offers of economic aid from the USSR, Poland, and Czechoslovakia. Although Burma admitted a number of Bloc specialists of various types, dissatisfaction with trade arrangements led that country to request partial release from its commitments to ship rice

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to the USSR. A large delegation of businessmen from Malaya and Singapore traveled to Communist China in August seeking export markets. A joint communiqué following an official visit in Peiping seemed to indicate that Laos would receive aid soon, but this was denied by officials in Laos.

C. Middle East and Africa.

The position of the Bloc in the Middle East was considerably strengthened between May and August. Although it has become apparent that the USSR never made a specific offer to finance the Aswan Dam and that no other large development credits have been provided, the Egyptian economy became more closely tied to the Bloc as a result of the 1955 arms sales agreement and restrictions imposed by the West following Egyptian seizure of the Suez Canal. An arms agreement announced in May provided Syria with Czechoslovak credits totaling \$47 million, and Czechoslovakia submitted a bid for constructing an oil refinery that was seriously being considered by the Syrian government. A Czechoslovak trade delegation offered to build a sulfuric acid plant and to provide equipment for producing superphosphates in Jordan. General offers of aid to Lebanon were made by the USSR and East Germany, and trade agreements now have been signed with virtually all Bloc countries. Efforts to expand trade with Lebanon were mildly successful, but Bloc trade still comprised only a small percentage of total Lebanese trade during the period under review. In a petroleum agreement signed in July the USSR undertook to provide Israel with fuel amounting to approximately 40 percent of its requirements over the next 2 years. The USSR also agreed to make available petroleum technicians and equipment.

Although the USSR has frequently indicated a willingness to provide generous assistance to Turkey, the Turkish government has rejected these Soviet offers. Private Turkish firms have, however, been permitted to enter into commercial agreements as well as credit arrangements with the European Satellites. Turkey's trade with the Bloc, in particular with the European Satellites, continued to account for a significant portion of its total trade. Greece negotiated trade agreements with Hungary and Poland during the period, but expansion of actual trade was negligible. Nothing tangible resulted in Greece from Soviet offers of credit and assistance for a wide variety of projects during the period under review. After prolonged negotiations, Iran and the USSR renewed a trade agreement that had been allowed to lapse after Iran signed the Baghdad Pact.

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Bloc economic activity in Africa has been directed primarily toward Ethiopia, where Czechoslovakia has contracted to build a new hospital and to supply several buses. Czechoslovak offers to Ethiopia to construct a hydroelectric project, a sugar mill, and diesel power stations are not likely to be accepted. A Czechoslovak-Ethiopian trade accord was signed, however, and several other Bloc countries sent trade missions to Ethiopia.

D. Latin America.

Economic activity of Bloc countries in Latin America consisted of much negotiation, travel, and soundings for markets, but relatively little was accomplished. A large number of Bloc delegations, in particular from East Germany, Poland, and Czechoslovakia, visited Latin America during the period covered by this report. Groups from Brazil, Chile, and Uruguay, among others, traveled extensively in the Bloc areas of Europe, and some members of the Brazilian delegation visited Communist China as well. Several Latin American countries received informal and general offers of assistance in the form of factory construction and capital equipment, to be paid for by long-term credits and exports of merchandise. Argentina received an East German offer of a \$10-million credit for expanding its fishing industry.

Comprehensive trade data for this period are not yet available, but information at hand indicates that Latin American imports from the Bloc were substantially above the level of previous years. The rise in imports may have been the result of deliberate Latin American efforts to reduce previously accumulated credit balances in Bloc countries. Exports to the Bloc rose much more slowly than imports.

During the period under review the Latin American countries appeared to be reexamining their bilateral trading arrangements with the Bloc, and there was some indication of a growing desire for multilateral arrangements. A payments agreement signed by Uruguay and the USSR provided for the possible use of credit balances in third countries. Rumors of plans for multilateral payments arrangements with Bloc countries on the part of Argentina and Brazil also circulated during this period.

E. Europe.

The Bloc continued to increase its stake in the economies of both Iceland and Yugoslavia during the period under review. A joint

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agreement involving a \$175-million credit committed the USSR and East Germany to assist in expanding the Yugoslav aluminum industry. Repayment is to start when the plant begins producing, and is to be made in aluminum over a period of 20 years. Another agreement with Rumania may result in development of the power potential of the Danube River in cooperation with several other East European countries. Trade between Iceland and the USSR was at a rate more than 50 percent greater in the first half of 1956 than in 1955. In the other underdeveloped countries of Europe -- Spain and Portugal -- the Bloc economic drive has been limited to attempts to formalize commercial relations.

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